

Overview and Preparation of Agricultural Conservation Easement Appraisals

CALIFORNIA FARMLAND CONSERVANCY PROGRAM



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Overview and Preparation of Agricultural Conservation Easement Appraisals

I. INTRODUCTION

The Department of Conservation's California Farmland Conservancy Program (CFCP) offers this information as a resource for appraisers and grant applicants to use when developing appraisals that will accompany applications for grant funding under the CFCP. The primary intent of this document is to encourage the preparation of agricultural conservation easement appraisals that are as complete and thorough as possible, thereby facilitating the program's review of such appraisals. Incomplete or inadequate appraisals can result in the program requesting supplemental information and analysis, the commissioning of entirely new appraisals, or outright rejection of grant applications.

This document is not intended to be the final word on the conduct of conservation easement appraisals. Other publications such as the *Uniform Standards of Professional Appraisal Practices* (USPAP) of the Appraisal Foundation and the Land Trust Alliance's publication, *Appraising Conservation Easements* serve as important resources for appraisers and entities seeking to acquire conservation easements. This overview is focused specifically at issues related to *agricultural* conservation easement appraisals in California.

A. Document Organization

The document has been organized to provide specific advice concerning the development of agricultural conservation easements. Beginning with some background information and general suggestions for potential CFCP grant applicants and appraisers, specific suggestions are provided concerning the form of appraisals, described as three components: the appraisal introduction, market area and subject property discussion, and agricultural conservation easement valuation. This section is followed by a set of specific recommendations included in a Discussion of Significant Issues of Consideration in Agricultural Conservation Easement Appraisals. Finally, the document contains examples, including an appraisal content checklist (Exhibit A); an example of a comparable sale data sheet (Exhibit B); and examples of tabulated data charts (Exhibits C and D).

B. CFCP's Role in the Use and Review of Appraisals

The CFCP's enabling legislation requires that every grant application submitted to the program be accompanied by a qualified appraisal¹ conducted by an independent appraiser (Public Resources Code section 10260). The CFCP has the authority to commission the preparation of such appraisals directly, but the program typically relies upon grant applicants working with landowners of targeted properties to commission the preparation of appraisals. While the CFCP may not be a direct client of the appraiser, it should be understood that appraisals being submitted for the purpose of applying for CFCP grant funds will be thoroughly reviewed by the CFCP, and submitted to the California Department of General Services Real Estate Division (DGS) for third party review. The appraiser should therefore recognize that CFCP, DGS, and any other funding partners should be identified as intended users of the appraisal.

C. Special Challenges of Agricultural Conservation Easement Appraisals

Agricultural conservation easement (ACE) appraisals can be very challenging assignments. The use of agricultural conservation easements is still relatively new, and such deed restrictions are not yet commonplace in some agricultural regions of California. As such, there may be very little resale data for ACE-encumbered properties in these locations. In addition, each ACE has elements that are specific to a given property's unique attributes, which also has implications for its valuation.

ACE valuation is closely tied to the proximity and timing issues of a given property in relation to the path of urban and non-agricultural rural growth. Simply because one ACE is concluded to diminish the estimated fair market value of a property by a certain percentage does not mean that the same conclusion can be immediately drawn for another property, even if it is in close proximity. In certain situations, an appraiser may have to depart from traditional methods of valuation to satisfactorily assess the market and other conditions that affect the valuation of easement-restricted properties. However, at all times, the valuation methodology and assumptions must be firmly tied to market-based factors.

The CFCP recognizes the special challenges associated with the development of many ACE appraisal assignments. As a general suggestion, the program recommends that the more complex or difficult an ACE appraisal assignment, the greater the need for thorough narrative discussion and presentation of relevant data and information within the appraisal.

¹ An appraisal prepared by a qualified appraiser and as required in Federal Public Law No: 108-357.

D. Suggestions for CFCP Grant Applicants when Commissioning Appraisal Assignments

Prospective applicants for CFCP grant funding should engage potential appraisers as early as possible in the CFCP application process. The scope of work and the specific requirements of the appraisal should be discussed with the appraiser, and the appraiser should be informed of the documents and information necessary to complete the appraisal assignment properly. Identifying appraisers who can demonstrate strong writing and analytical skills and have direct experience in the appraisal of ACEs are important considerations in making appraisal assignments. However, appraisers with broad experience in other easement or partial-property-rights appraisal would also be helpful.

The grant applicant should inform the appraiser that CFCP, the Department of General Services, and possibly other public agencies will be reviewing the appraisal, and these entities should be identified as intended users of the appraisal.

The grant applicant should assure that the appraiser has relevant information concerning the appraisal assignment as early as possible. Briefly, the key documents and other information that a grant applicant should ensure that the selected appraiser obtains include:

- The draft ACE language (less preferable would be a summary, if that is all that is available).
[Note: at this point, it is appropriate to review and include essential language required by the CFCP and other potential funding sources, such as the federal Agricultural Conservation Easement Program², if funding is being sought from other sources as well. Consult grant funders for this information.]
- The number of separate ACEs being contemplated to encumber the subject property. Detail any provisions that would allow for partitioning/subdivision of the ACE-encumbered property in the future. If multiple ACE's, detail any provision that would allow the ACE's to be sold separately from one another.
- Any areas of the property to be excluded from the ACE and any areas of the property that are not being used for agricultural purposes (e.g., riparian setbacks, lands not suitable for farming, etc.).
- The number of any existing and/or proposed home sites and any building envelopes the landowner may seek to reserve within each ACE. Include principal residence(s) as well as farm labor/support residence(s).

² <http://www.nrcs.usda.gov/wps/portal/nrcs/main/national/programs/easements/acep/>

- Home size restrictions
- The subject property's legal description
- A copy of a preliminary title report for the subject property
- Details of any lease(s) affecting the subject property
- The subject property's water rights, crop history, and current agriculture use
- The status of any Land Conservation Act or Farmland Security Zone contracts on the subject property
- Details of the property's mineral rights, including the degree to which any of these rights have been severed from the property, and the access rights for mineral extraction. The mineral rights evaluation should include both hydrocarbon and mineral aggregate rights.

The above items are discussed in greater depth later in this document.

E. Self-Contained versus Summary Formats

Appraisals should conform to the Uniform Standards of Professional Appraisal Practice (USPAP) Reports prepared in a summary appraisal format as defined by USPAP Standard 2-2(b), rather than in the self-contained format, will generally be acceptable. However, for the purposes of the CFCP, the summary format should still be comprehensive and quite detailed.

Within the summary appraisal report, the reader should expect to find all of the significant data reported, with the same depth of analysis and level of detailed information as that which would be provided in a self-contained appraisal report. Because of the inherent complexities of many ACE appraisal analyses, summary appraisal reports are encouraged to be extremely thorough in the presentation of information and the accompanying narrative analysis. If an appraisal makes reference to significant information contained in the appraiser's work files, but not included in the appraisal, the appraisal will be considered as a restricted use appraisal, and will not typically be considered acceptable for the purposes of the CFCP.

II. Specific Information to Include in Appraisals

The following are suggested components for the preparation of ACE appraisals that will be submitted for review by the CFCP. This information is summarized in an accompanying Appraisal Content Checklist provided in Exhibit A.

A. The Appraisal Introduction

This general section of the appraisal includes basic conditions of the appraisal and facts about the property being appraised. A title page indicating the property or project name (or both), and the name of the appraiser should be included. A letter of transmittal should be included indicating that the appraisal is either a self-contained or summary format, and that the California Farmland Conservancy Program is an authorized user of the appraisal (if this is known or anticipated at the time the appraisal is commissioned).

In addition to the title page and letter of transmittal, the following elements should be included as part of the introduction:

- A table of contents
- A summary of the appraisal's important facts and conclusions
- The Certificate of Value
- A description of the purpose and intended use of the appraisal
- The definition of market value
- An indication of the rights appraised
- The date of value and the date of the report

B. The Market Area and Subject Property Discussion

1. Market Area Analysis

Appraisals should describe market area characteristics with a level of detail that gives a complete overview of the conditions affecting the subject property. The market area analysis should provide thorough discussion of relevant characteristics, including prevailing land uses, the types and ranges of size of typical agricultural operations in the area, tangible non-agricultural development pressures in the subject area, directions of urban growth, transitional areas, linkages to transportation and urban services areas relative to the property being appraised, and the likelihood of non-agricultural uses of the subject property in the future.

The market area analysis should include information on relevant county and/or city general plan and present growth policies. The analysis should also identify and discuss the impact of existing or anticipated changes in the location of LAFCO-defined spheres of influence, city limits, urban reserve areas, or urban limit lines on the market values of the subject property

and its market area. The analysis should identify and discuss any trends in speculative land purchases, land subdivisions, rural residential or rural estate development in the vicinity of the property being appraised, and any mitigation policies within the market area.

The marketability of the subject area for uses other than agriculture should be identified and discussed. The analysis should include the community's growth in population in recent years and, if available, projections of future growth. Based on this information, the demand for and of absorption of currently available land should be discussed as well as any local mitigation requirements, if any. Conclusions should be substantiated with factual market evidence.

The analysis of the market area should establish a credible basis for determining the highest and best use of the subject property in the before valuation, as well as serve as the basis for explaining the relationship of the subject property to the comparable sales that are used in the report.

2. Subject Property Analysis

The subject property description should provide a comprehensive narrative discussion of the subject property, its location, significant features and improvements that influence its market value. The analysis should provide a thorough overview of the property.

It is recommended that this section include the following information concerning the subject property:

- A narrative description of the subject property's size, shape, and topography and net farm acreage
- The legal description of the property (typically included as part of the preliminary title report)
- The number of certified legal parcels
- Identification of assessor's parcel number(s)
- Current real estate taxes and any special assessments
- Reclamation district assessments or charges, if any
- Any relevant flooding or FEMA flood zone information
- Any existing farmstead and proposed farmstead areas reserved in the ACE and their locations
- Any farm structures and other improvements including their sizes, ages, quality of construction, condition, remaining economic life, and contributory value
- Any perennial plantings and crops, including their age, condition, and remaining economic life
- Water resource factors, including source, quantity, quality, and reliability for irrigation
- Access to the property (public or private, and paved or unpaved roads)

- Utilities available to the site including availability for the development of domestic water supplies and septic systems. Any unusual restrictions limiting agricultural production as a result of these utilities (e.g., no permanent crops, tree crop height limitations) should be discussed if applicable
- Whether there are Land Conservation Act or Farmland Security Zone contracts on the property, and, if under non-renewal, the date(s) at which contracts would expire
- Any lease or rental data including a discussion of the implications for the market value of the subject property
- Ownership of the mineral rights, including hydrocarbons, sand, and other aggregates, and discussion of rights of surface entry; discuss any mining activities that are known to have taken place on the subject or nearby properties

In addition to the narrative section, maps and photographs of the property are essential for users of the appraisal to properly understand the property's setting and physical characteristics. These should be included as exhibits in the appraisal, including:

- Photographs of the subject property, including improvements, with delineated reference points on the property
- A general location map
- A topographic map (if there are significant variations in topography on the subject property)
- A FEMA flood zone map, if applicable
- Drainage maps and drainage direction, if applicable
- An assessor's parcel map
- A map detailing the soils comprising the subject property, including the soil mapping units and their USDA Land Capability Classifications
- Important Farmland maps capturing the subject property as well as surrounding lands

III. The Valuation of the Agricultural Conservation Property (Easement) Highest and Best Use in the Before and After Conditions

Appraisals should identify and discuss the highest and best use of the property before and after it would be encumbered with the proposed ACE. The highest and best use should be the most probable use of the property, appropriately documented and supported within the context of the criteria normally considered in a highest and best use analysis. The appraisal should provide the appropriate factual details to support the conclusions of highest and best use. Any assumptions establishing the basis for highest and best use should be supported with data from the marketplace; unsupported or speculative assumptions as a basis for the highest and best use conclusions should be avoided. The highest and best use conclusions should be consistent with data contained in the market area analysis and the subject property analysis and within the context of the appraisal's date of value (i.e., the present time).

Highest and best use analysis should be based on scenarios that are clearly documented and supported, and should avoid gross speculation. For example, if rural residences or estates are concluded to be the highest and best use of the property in the before condition, there should be direct evidence to identify actual development of these land uses in proximity to the property to support this conclusion. Any assumptions involving changes in zoning or general plan modifications should be considered within the context of being reasonably probable events. The highest and best use analysis should distinguish between highest and best use of the property as if vacant and as though improved, particularly in situations where the improvements include perennial plantings that have a significant value to the property as a whole.

A. Direct Sales Comparison Approach to Valuation

The direct sales comparison approach, using the before and after valuation technique, is generally considered to be the most reliable method for establishing the market value of an ACE. The appraisal should provide sufficient market data and analyses to support a credible opinion of market value. Only valid comparable sales data should be used.

In the appraisal of the property in the before condition, only comparables from a location with very similar market forces and conditions to the subject property should be used. Comparables from other population centers may not be a reliable indicator of market value because the market factors in each location may be quite different. If a comparable for the before condition is encumbered with a Land Conservation Act or Farmland Security Zone contract, any effect of the contract on the sales price should be fully analyzed and discussed.

In the appraisal of the property in the after condition, comparables should be selected for which values derived solely from agricultural uses and any other uses that the easement does not specifically preclude. In this approach, it is generally possible to seek out

appropriate comparable sales from a much broader geographic area than the subject, provided that other factors, such as the similarity of agricultural attributes, are evident. Larger contiguous blocks of agricultural land may be particularly significant in this analysis. Whenever available, proximate sales of properties already encumbered by *agricultural* conservation easements may be extremely useful. However, in such cases, it will be very important to compare specific terms of the existing and proposed easements, since permitted and prohibited uses in conservation easements can vary considerably, and have significant impacts upon value.

In both the before and after condition, the following items should be included in the discussion of each comparable:

- Support the reasons for the selection of the comparable
- Identify the buyer's purpose for purchasing the comparable property, if known
- Provide representative photograph(s)
- Provide an assessor's parcel map
- Provide a location map

It is generally helpful to include summary comparable sales details in a comparable sales data sheet, an example of which is provided in **Exhibit B**.

1. History of Ownership

It is recommended that appraisals discuss any changes in the ownership of the subject property that may have taken place during the period of up to five years prior to the effective date of the appraisal. If the change in ownership is an open market, arms-length transaction, it is generally reasonable to include this sale within the comparable sales analysis. It may be given considerable weight in the analysis and conclusion of market value for the property in the before valuation, but this is at the appraiser discretion to do so.

2. Adjustments to Comparable Sales

Adjustments to comparable sales should be explained and justified in the narrative analysis. The individual and gross adjustments to the data should be reasonable and conform to generally accepted appraisal practice standards. Sales that require large adjustments are not generally comparable to the subject property and should be avoided if at all possible. When it is necessary to include a sale with large adjustments, the appraisal should provide an acceptable explanation for including the sale and should provide a well-grounded justification for the adjustments. Brokers' opinions, unexercised purchase options, and expired listings may be used as supportive documentation in conjunction with and support of comparable market data.

Tabulated charts summarizing the important similarities and differences between the comparable sales and the subject property are highly recommended. Likewise, tabulated

charts that summarize the important adjustments may be included, but if not used; either explain why they are not included or provide a qualitative analysis to assist the reader in understanding conclusions of value.³ Two examples of tabulated charts are attached as **Exhibits C and D**.

3. Minimum Number of Comparables

There is no set number of sales considered necessary to establish the market value of an ACE. However, the CFCP recommends that each estimate of market value contain no fewer than three sales, provided they are highly similar to the subject property in the before condition, or strong indicators of residual agricultural value in the after condition. Ideally, each estimate of market value should contain four to six comparable sales. An appraisal that uses fewer than three comparable sales should thoroughly explain and justify the reason for doing so.

B. Income Approach to Valuation

The use of the income approach as a method of valuation for agricultural land is most valid in areas of the state where agricultural land is commonly purchased as an investment for its rental income. As a method of valuation, the sales comparison approach is generally considered more reliable. However, the decision as to which approach is the more reliable method should be left up to the appraiser and it is the responsibility of the appraiser to inform the reader within the report and within the reconciliation section as to which valuation method is the most reliable for the particular assignment.

If the income approach is used, it should be properly documented in accordance with the Uniform Standards, Rule 1-4(c)(i-iv). Rents and capitalization rates should be documented and derived from the marketplace. The rental information should indicate whether the rent is annual cash or share rent. When the property is subject to a lease, the information should include the term of the lease, date the lease was signed, and any expenses paid by the lessor. The comparables used in the development of the income approach should be documented, discussed, and confirmed in the report to the same degree that the comparables are considered in the sales comparison approach to valuation. In cases where the landowner does not want to release specific lease information, acknowledge that fact to the reader and provide a share rent in the market area instead.

³ The market area analysis should provide the reader with a general understanding of the area characteristics, development pressures on the subject area, direction of urban growth, and the likelihood of a non-agricultural use of the subject property in the future. It should also establish a basis for determining the highest and best use of the subject property in the before valuation.

IV. Additional Suggestions for Agricultural Conservation Easement Appraisals

The following is a list of issues that have been found to be significant in CFCEP reviews of agricultural conservation easements, with recommendations for how each issue should be considered and addressed within appraisals.

A. Preliminary Title Report

The appraiser should obtain a recent preliminary title report from the client and review the legal description and title exceptions listed. Exceptions may include mineral rights exclusions, easements, leases, life estates, ownership anomalies, deed restrictions, Land Conservation Act or Farmland Security Zone contracts, disputed claims over water rights, etc. The appraisal should summarize the title exceptions and detail their potential effect on the market value of the subject property. A statement should be included confirming that the preliminary title report was provided, that the outstanding title issues identified in the preliminary title report were reviewed, and that the conclusion of value has accounted for any relevant title exceptions.

[Note to appraisers and grant applicants: existing easements on the subject property, such as Army Corps of Engineers or Department of Water Resources flowage easements, should be closely reviewed to determine whether they may impact valuation of subsequent agricultural conservation easements].

B. Specific Agricultural Conservation Easement Language and Permitted and Prohibited Uses

The appraiser should request from the client a copy of the draft ACE for the specific property. Depending on the proposed funding source(s), there may be required model ACE language that is used as a starting point. The proposed ACE terms for the subject property should be fully discussed with the clients and landowners of the subject property, including permitted use, prohibited uses, and reserved rights. The proposed ACE might have variables such as provisions for more than one farmstead area, exclusion of the farmstead area from the easement, lot line adjustments, and potential division of the ACE-encumbered property into different ownerships in the future. The farmstead is a delineated area of the farm or ranch usually reserved for farm buildings including residences. The appraisal should provide a summary of each easement's permitted and prohibited uses, and clearly summarize how any of these provisions were factored into conclusions of value.

[Note to grant applicants: It is best to include the current, specific easement language requirements of anticipated grant funders, which may change due to funding or legislative changes. Please contact the programs directly for additional information about these requirements].

C. Arm's Length Transactions

Appraisals should strive to use only verified open market, arm's length transactions within the comparable sales analysis. Sales involving public or quasi-public entities should generally be avoided, unless there are compelling arguments to justify their use. Public entities are frequently motivated by a set of concerns and specific requirements that are different from those of a private buyer. Transactions involving public or quasi-public entities may result in inflated purchase prices, because these entities are targeting a specific property and seek to avoid unfavorable relationships with owners and any negative publicity associated with potential condemnation proceedings. These properties are frequently not listed and the sellers are less motivated than typical sellers.

D. Appraisals of Agricultural Conservation Easements on Smaller Properties

The CFCP does not define a minimum parcel size under which an agricultural conservation easement may be established using CFCP grant funds. However, the CFCP is required to fund easements on properties that are justified as being likely to remain as economically viable agricultural units. In general, the smaller the property under consideration for an ACE, the greater the challenge in finding justification for continued agricultural use of the property over the long term, particularly since most ACEs do not dictate a minimum level of continued agricultural activity.

In areas where there is an established or developing market for rural residences, it can be difficult to assign significant value to the imposition of an agricultural conservation easement. For example, a 20-acre property retaining a home site and perhaps a secondary dwelling unit could ultimately become a rural residence or estate, regardless of whether or not there is an ACE encumbering the property (i.e., there may be a minimal impact of the imposition of the ACE on the conclusion of highest and best use for the property). When dealing with smaller agricultural units that retain home sites, appraisals should be especially clear and deliberate in explaining valuation conclusions.

In cases where an already small property is valued based upon its potential breakup into smaller residential units (e.g., an ACE that would prevent a 20 acre property, zoned AG-5, from being broken into four 5-acre parcels), grant applicants should be aware that funders such as the CFCP will have difficulty in rationalizing the expenditure of public funds where the continued threat of rural subdivision of agricultural properties cannot be minimized.

E. Land Conservation Act and Farmland Security Zone Contracts

Appraisals should identify whether or not the subject property is subject to either Land Conservation Act (10 to 20 years) or Farmland Security Zone (20 year) contracts, and the status of any such contracts (i.e., specify if any contracts have initiated the process of non-

renewal). Appraisals should provide a complete analysis of any effects of such contracts on the near-term or long-term development potential and market value. This analysis should be comprehensive, including properties within the county, generally, as well as the subject property specifically. Conclusions of valuation impacts should be correlated with the conclusions of highest and best use in the before valuation.

In addition, appraisals should identify whether the sales comparables being used are likewise under Land Conservation Act or Farmland Security Zone contracts. The analysis should fully discuss and justify conclusions concerning the effect of such contracts on the comparables' sale prices and the appropriateness of their use in the overall analysis (and any adjustments that must be made).

Attention should also be given to neighboring properties in the path of growth that may likewise be in Land Conservation Act or Farmland Security Zone contracts, and what effects the presence of other contracted lands may have on the conversion potential of the subject property.

F. Potential Flooding Conditions on Subject Properties

If there are issues of potential flooding (e.g., FEMA or other flood risk designations) associated with the subject property, the impact upon valuation of an ACE should be fully addressed. This becomes particularly true when significant portions of a property lie within a 100-year flood designation. A highest and best use conclusion in the after condition that is based upon non-agricultural uses requiring construction within a flood plain, or alteration of the landscape in response to the threat of flooding, should acknowledge and account for the full costs associated with the development of the property to attain those uses.

G. Allocation of Value to Agricultural and Non-agricultural Portions of the Property

When subject properties include significant acreages of both agricultural and non-agricultural lands, or acreages of both irrigated cropland and non-irrigated grazing land, grant applicants and appraisers should fully discuss and delineate these different lands. It is not unusual for different grant funding sources to consider funding conservation easements on different portions of a given property. The CFCP therefore requests that appraisals separately allocate the before and after values to these different lands comprising the subject property.

H. Subdivision Development Analysis

Appraisals should not unconditionally present a subdivision analysis technique that assumes the property can be subdivided into smaller units, such as rural residences or other small units, based solely on the current zoning or potential future changes in zoning. Subdivision

development analysis requires technical assistance from other branches of knowledge in real estate development, including land planners, registered engineers, and real estate marketing experts.

The assumption that a property can be legally subdivided beyond current zoning should not be made unless tentative parcel maps have been approved for the property. Analysis based upon subdivision of a property down to its current zoning minimum acreage should include discussion of the likelihood of such subdivision, based upon recent comparable actions that have been taken by the relevant local government jurisdiction. Analyses should account for the cost, time, and risk associated with attempts to divide property.

Exhibit A - Appraisal Checklist

Following is a suggested checklist of appraisal components appropriate for development of an ACE appraisal. Please refer to the narrative section of the document for more specific details, as noted in the footnotes below.

Please note: This document does not constitute complete guidance for appraisals. For additional information please refer to publications such as the *Uniform Standards of Professional Appraisal Practices* (USPAP) of the Appraisal Foundation or the Land Trust Alliance's publication, *Appraising Conservation Easements*.

APPRAISAL INTRODUCTION

- ☐ **1. Include a title page that indicates:**
 - ☐ a. The property or the project name, or both.
 - ☐ b. The date of the report.
 - ☐ c. The name of appraiser.
- ☐ **2. Include letter of transmittal that indicates:**
 - ☐ a. The report is either a self-contained or summary report.⁴
 - ☐ b. The date of value and the date of the report.
 - ☐ c. The value conclusions.
 - ☐ d. The California Farmland Conservancy Program is an authorized user of the appraisal (if this is known or anticipated at the time the appraisal is commissioned).
- ☐ **3. Include a table of contents for the appraisal.**
- ☐ **4. Include a summary of the appraisal's important facts and conclusions.**
- ☐ **5. Include the Certificate of Value.**
- ☐ **6. Describe the purpose and intended use of the appraisal.**

⁴ For CFCP appraisal purposes, a summary appraisal report format is generally acceptable. The essential difference in the two reporting options is the way in which the information is presented. In the self-contained appraisal report, the reader should expect to find all the significant data reported in comprehensive narrative detail; while in the summary appraisal report, the reader should expect to find all significant data reported in tabular or abbreviated narrative format. Under either option, the depth and detail of information in the report should be the same. Under either option, the report should contain all of the information significant to the completion of the appraisal assignment and necessary for the client and users of the report to properly understand the rationale for the opinions and conclusions. If the report utilizes significant information contained in the appraiser's work files but not included in the report, the report is considered a restricted use appraisal report and will not typically be considered acceptable for the purposes of the CFCP.

- ☐ 7. Include the definition of market value.
- ☐ 8. Indicate the rights appraised.
- ☐ 9. Indicate the date of value and the date of the report.

SUBJECT PROPERTY AND MARKET AREA INFORMATION

- ☐ 1. Provide a description of the subject market area that fully discusses:
 - ☐ a. Subject property's marketability and the prevailing land uses in the subject's market area.
 - ☐ b. Changes taking place that impact the current and future agricultural use of the subject property and its market area.
 - ☐ c. Projected changes in the community population and its impact on the development in the market area in which the subject property is located.
 - ☐ d. Any speculative land purchases, land subdivision, or rural residential subdivision in proximity to the subject's market area.
 - ☐ e. Urban service areas and transportation linkages to the subject's market area.
 - ☐ f. Anticipated changes in the location of urban limit lines, city limits, spheres of influence, and urban reserve areas impact on the market values of the subject property and its market area.
 - ☐ g. The current and anticipated future changes in the county and city general plans as they may affect the market value and potential development of the subject property.⁵
- ☐ 2. Provide a detailed description of the subject property that includes:
 - ☐ a. Any sale(s) that occurred in the last 5-years prior to the date of value.
 - ☐ b. Photos of the land, significant features, and improvements.
 - ☐ c. The property's legal description is optional if it is included in the preliminary title report (PTR).
 - ☐ d. Statement confirming the PTR was provided and reviewed.

⁵ The market area analysis should provide the reader with a general understanding of the area characteristics, development pressures on the subject area, direction of urban growth, and the likelihood of a non-agricultural use of the subject property in the future. It should also establish a basis for determining the highest and best use of the subject property in the before valuation.

- ☐ e. The outstanding title issues identified in the PTR.
- ☐ f. The number of certified legal parcels (which may not always correspond to assessor's parcels).
- ☐ g. The number of assessor's parcel and their numbers, current real estate taxes, and special assessments.
- ☐ h. Reclamation district assessments or charges, if any.
- ☐ i. Narrative description with maps of subject property's size, shape, and topography.
- ☐ j. The existing farmstead and proposed farmstead areas reserved in the easement and their locations on the subject property.
- ☐ k. Information regarding access to the property (public or private, and paved or unpaved roads).
- ☐ l. The FEMA Flood Zone information and map.
- ☐ m. A soils map including the soil mapping units and their USDA Land Capability Classifications.
- ☐ n. Water resources information, including water rights status, quantity, quality, and reliability for irrigation.
- ☐ o. Utilities available to the site and any unique restrictions they may impose to agricultural production.
- ☐ p. Whether there is a Land Conservation Act (10-year to 20 year contract) or Farmland Security Zone (20-year contract) on the property.
- ☐ q. Lease or rental data including a statement as to affect of the lease on the market value of the subject property.
- ☐ r. Ownership of the mineral rights, including hydrocarbons, sand, and other aggregates.
- ☐ s. The farm structures and improvements including their sizes, ages, quality of construction, condition, remaining economic life, and contributory value.
- ☐ t. Perennial plantings and crops including their age, condition, and remaining economic life.

MARKET DATA ANALYSIS AND VALUATION

- [] 1. **Provide a highest and best use analysis for the subject property both before and after it is encumbered with the proposed agricultural conservation easement:**
 - [] a. Highest and best use should be the most probable use of the property appropriately documented and supported within the context of the criteria normally considered in a highest and best use analysis.
 - [] b. Highest and best use analysis should distinguish between highest and best use of the property as if vacant and as improved, particularly in situations where the improvements including any perennial plantings that have a significant value to the property as a whole.
 - [] c. Assumptions establishing the basis for highest and best use should be supported with data from the market place; unsupported assumptions as a basis for the highest and best use conclusion are speculative and should be avoided in the appraisal reports.
 - [] d. Highest and best use analysis is considered improper and speculative when it is based on a scenario of short-term or long-term events taking place in the future.
 - [] e. Changes in zoning, general plan designations, and land use should be considered within the context of being reasonably probable events.
 - [] f. The highest and best use conclusions should be consistent with data contained in the area and site analysis and within the context of the appraisal's date of value.
 - [] g. Highest and best use analysis should provide appropriate factual details in support of the highest and best use conclusion.
 - [] h. Address flood plain and wetlands issues as they would apply to the potential development of the subject property.
 - [] i. If the analysis concludes rural residences or estates are considered to be the highest and best use of the property in the before valuation, the analysis should identify the actual development of these uses in proximity to the subject property to support the conclusion.

2. Provide a sales comparison approach for the valuation of the subject property both before and after it is encumbered with the proposed agricultural conservation easement:

- [] j. Support reasons for the selection of the comparables in both the before and after valuations.
- [] k. Identify the buyers' purposes for purchasing the comparable properties, i.e. agricultural production or future development.
- [] l. Avoid utilization of sales involving public or quasi-public entities.⁶
- [] m. Include tabulated charts summarizing the important similarities and differences between the comparable sales and the subject property.⁷
- [] n. Include tabulated charts that summarize the important adjustments.
- [] o. Provide sufficient market data and analyses of the data to support credible opinion of market value.⁸
- [] p. Provide a narrative explanation and justification for all of the adjustments to the market data.⁹

6 Appraisers should be sure to use only verified open market, arm's length transactions. Public or quasi-public entities are frequently motivated by a set of concerns and specific requirements that at times are different from those of a typical buyer. Transactions involving these entities frequently have willing sellers and buyers, but they may pay inflated prices for property to avoid unfavorable consequences and bad publicity, e.g. through exercising the power of eminent domain. These properties are usually not listed and the sellers are less motivated than the typical sellers.

7 Two examples of tabulated charts, which are useful for distinguishing important characteristics in the subject property and comparables sales, as well as adjustments for differences between the comparable sales and the subject property, are attached as Exhibits C and D. These charts provide a quick visual overview of the characteristics in each sale with those of the subject property. These exhibits provide an effective means to rank the sales overall as superior, similar, or inferior overall to the subject property as a condition for bracketing the market value of the subject property. The use of percentage adjustments instead of qualitative adjustment as demonstrated are also considered appropriate. Charts should be located in the body of the sales analysis for the reader's convenience. The use of these charts is optional but is useful and highly recommended.

8 The sales comparison approach, utilizing the before and after valuation technique, is considered the most reliable and the generally accepted method for establishing the market value of an agricultural conservation easement. The direct comparison of sale properties with agricultural conservation easements is not generally utilized because there is insufficient market data. In general, there is no set number of sales necessary to establish the market value for an agricultural conservation easement. CFCP suggests that each estimate of market value should contain no fewer than three sales, providing they are similar to the subject property. Ideally, each estimate of market value should contain four or six comparable sales. The utilization of fewer than three comparable sales should be fully explained and justified.

9 The individual and gross adjustments to the data should be reasonable. Sales that require large adjustments are not generally comparable to the subject property and should be avoided if at all possible.

- q. Utilize valid comparable sales data in the sales comparison approach.
- [] r. Brokers' opinions, unexercised purchase options, and expired listings should not be used as comparable market data. Current listings are acceptable if appropriate adjustments are made for the prevailing market conditions.
- [] s. Discuss the effect of the Land Conservation Act or the Farmland Security Zone on the sale prices of the comparables and the before and after valuation of the subject property.
- [] t. Any negative adjustment for the loss of market value in the after valuation of the subject property due to the perceived intrusive nature and monitoring aspects of the proposed agricultural conservation easement should be fully explained and justified with market evidence.
- [] u. For each comparable, the analysis should include the information requested on the sales profile sheet, as well as a photograph(s), assessor's parcel map, and location map for the comparable. See Exhibit C.

3. Income Approach

- [] a. CFCP considers the use of the income approach optional.
- [] b. The income approach should not be the principal method for estimating both the before and after market values of the subject property.
- [] c. Provide as complete an analysis and documentation of the data as are available, including the comparable rental data, operating expenses, and the development of the capitalization rates, if the income approach is applicable and utilized as method of valuation of the subject property.

4. Cost Approach ¹⁰

- [] a. Include the cost approach if it is applicable to the solution of the appraisal or necessary in order to result in opinions and conclusions that are credible.

5. Subdivision Analysis

- [] a. Presentation of a subdivision analysis assuming that the property can be subdivided into smaller units, such as rural residences, is not generally considered an acceptable valuation technique for agricultural land, but if used

¹⁰ When it is necessary to include a sale with large adjustment(s), the appraisal should provide an explanation for including the sale and should provide a well-grounded justification for the adjustment(s).

should account for the cost, time, and risk associated with attempts to divide property and should be weighed against other components of the evaluation.

6. Reconciliation of the market value indicators

- ☐ a. If two or more approaches are used in the valuation of the property, the two values should be reconciled into a final estimate of value.
- ☐ b. The analysis should indicate which comparables were given the most weight in the final conclusion of value.
- ☐ c. Discuss and provide support for the market value concluded.

ADDENDA

- ☐ **1. Include a copy of the proposed agricultural conservation easement language specific to the subject property.**
- ☐ **2. Include a preliminary title report.**
- ☐ **3. Include location map(s) of the comparable sales and rental properties.**
- ☐ **4. Include photo of the comparable sale and rental properties.**
- ☐ **5. Include assessor's parcel number(s) and parcel map(s) of comparable sales and rental properties.**
- ☐ **6. Include comparable data sheets with the following information: ¹¹**
 - ☐ a. Number of legal parcels
 - ☐ b. Name of grantor and grantee
 - ☐ c. Date of the deed and date of the recording
 - ☐ d. Recorded book and page number
 - ☐ e. Amount of the transfer tax
 - ☐ f. Sale price
 - ☐ g. The dollar amounts of the down payment and the deeds of trust, if any
 - ☐ h. Acreage
 - ☐ i. Zoning
 - ☐ j. Present use
 - ☐ k. Land Conservation Act or Farmland Security Zone information, if any
 - ☐ l. Description of the Improvements

¹¹ An example of a comparable sales data sheet is attached as Exhibit B.

- [] m. Available utilities and any unique restrictions utility easements may place on agricultural production
- [] n. Topography
- [] o. Soils Information
- [] p. FEMA flood zone information
- [] q. Reclamation district information and fees, if any
- [] r. Disposition of the mineral rights
- [] s. Name of the person involved in the transaction and person confirming the transaction.

Exhibit B – Comparable Sales Data Sheet Example

Property Type:

County:

Assessor's Parcel Number:

Location:

Grantor:

Grantee:

Date of Deed:

Recording Date:

Book/Page:

Documentary Tax:

Sale Price:

Down Payment:

Mortgage:

Land:

Improvements:

Overall Price/Acre:

Size:

Zoning:

Price/Acre of Land:

Present Use:

Legal Description:

Improvements:

Access:

Utilities:

Topography:

Crops:

Soils:

Source of Water:

Flood Plain:

Reclamation District:

Mineral Rights:

Sale Confirmed By: Name of the Person Involved in and the Person Confirming the Transaction

Exhibit C – Sample Market Data Analysis and Valuation

	Subject	Sale No. 1	Sale No. 2	Sale No. 3	Sale No. 4	Sale No. 5
Sale Price		\$500,000	\$500,000	\$552,000	\$690,000	\$380,000
Financing		Market	Cash	Market	Market	Cash
Conditions of Sale		Arm's Length	Arm's Length	Arm's Length	Arm's Length	Arm's Length
Market Conditions (Time)		Current	Current	Current	Current	Current
Indicated Sales Price		\$500,000	\$470,000	\$552,000	\$640,000	\$380,000
Improvements		\$0.00	(\$30,000)	\$0.00	(\$50,000)	\$0.00
Adjusted Sales Price		\$500,000	\$470,000	\$552,000	\$640,000	\$380,000
Acres	120	100	110	120	160	80
Adjusted Price/Acre		\$5,000	\$4,270	\$4,600	\$4,000	\$4,750
Location		Hwy 4	Cherokee Lane	River Ranch. Rd	Willow. Rd.	Hwy 88
Physical Characteristics						
Zoning Designation	AG-60	AG-40	AG-60	AG-40	AG-80	AG-40
Access	Paved	Paved	Paved	Unimproved	Paved	Paved
Topography	Level	Undulating	Gently Sloping	Level	Undulating	Level
Predominate Soil Class	Class I	Class I & II	Class I & II	Class III	Class I	Class I & II
Source of Water	Wells	Irrigation District	Riparian Rights	Wells	Spring	Irrigation District
Utilities	Public	Public	Public	Public	Public	Public
Flood Plain Designation	Zone C	Zone C	1/3 Zone A, 2/3 Zone C	Zone C	Zone B	Zone B
Reclamation District	None	None	Yes	None	Yes	None
Mineral Rights Included	All	None	½ Mineral Rights	All	All	None
Number of Legal Parcels	3	1	2	2	1	1
Subdivision Potential Based on Current Zoning	2	2	1	3	2	2

Exhibit D – Sample Qualitative Comparables Sales Comparison and Adjustment Grid

	Sale No. 1	Sale No. 2	Sale No. 3	Sale No. 4	Sale No. 5
Sale Price	\$500,000	\$500,000	\$552,000	\$690,000	\$380,000
Financing	Market	Cash	Market	Market	Cash
Condition of Sale	Arm's Length	Arm's Length	Arm's Length	Arm's Length	Arm's Length
Market Conditions (Time)	Current	Current	Current	Current	Current
Indicated Sales Price	\$500,000	\$470,000	\$552,000	\$640,000	\$380,000
Improvements	\$0.00	(\$30,000)	\$0.00	(\$50,000)	\$0.00
Adjusted Sales Price	\$500,000	\$470,000	\$552,000	\$640,000	\$380,000
Acres	100	110	120	160	80
Adjusted Price/Acre	\$5,000	\$4,270	\$4,600	\$4,000	\$4,750
Location	Superior	Similar	Similar	Similar	Slightly Superior
Size	Slightly Superior	Slightly Superior	Similar	Inferior	Superior
Access	Similar	Similar	Inferior	Similar	Similar
Topography	Inferior	Slightly Inferior	Similar	Inferior	Similar
Soils Classification	Slightly Inferior	Slightly Inferior	Inferior	Similar	Slightly Inferior
Source of Water	Slightly Superior	Superior	Similar	Inferior	Similar
Utilities	Similar	Similar	Similar	Similar	Public
Flood Plain Designation	Similar	Inferior	Similar	Slightly Inferior	Slightly Superior
Reclamation District	Similar	Slightly Inferior	Similar	Slightly Inferior	Similar
Mineral Rights Included	Inferior	Slightly Inferior	Similar	Similar	Inferior
Number of Parcels	Inferior	Slightly Inferior	Slightly Inferior	Inferior	Inferior
Subdivision Potential	Similar	Slightly Inferior	Slightly Superior	Similar	Similar
Overall Rating	Superior	Slightly Inferior	Similar	Inferior	Slightly Superior

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